LIBYA

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Perspective

Libya: Wrestling With the Economy [redacted]

Libyan leader Qadhafi is facing increasing economic pressure as a result of the weak oil market and the confrontation with the United States. Additional losses in oil revenues would force Tripoli to make difficult and risky political choices this year. At current export levels, Libya loses about $30 million per month for each one dollar decline in oil prices. Conversely, if Tripoli holds prices at $14 per barrel, every 100,000-b/d drop in oil exports costs the regime $42 million per month. [redacted] the regime may need to cut imports by half, which would have to include both civilian goods and military equipment, magnifying already unprecedented domestic grievances over the regime's economic mismanagement. Declining oil revenues also will hinder Tripoli's ability to repay $4 billion in arrears owed to major trade partners. [redacted]

The declining cash flow is intensifying an already worrisome deterioration in living standards. The quality of health care and education, hallmarks of Qadhafi's revolution, has fallen sharply. Food lines are growing longer and consumers more contentious. Hoarding has become a way of life for most, and a thriving black market has evolved despite government efforts to suppress it. The regime is attempting to consolidate its control over the economy by halving the number of government ministries. This, however, will not solve the problems of an inept bureaucracy and inappropriate regime policies, and could further isolate the regime from the general populace. [redacted]

Libya probably will be able to maintain, or even increase, oil production as long as Tripoli can retain foreign expertise and its European oil markets. Oil exports have not been significantly affected by the slump in international oil demand and even jumped by about one-third last month. This surge probably was a one-time effort to empty crude oil storage tanks Tripoli considered vulnerable to attack, rather than an indication of improved market conditions. The pattern of Libyan oil exports, however, has changed since the imposition of US sanctions. Exports to West Germany are down by more than one-third, while exports to refiners in Spain, Italy, and Turkey have remained strong. The Libyans are using netback pricing—a form of rebate—to remain competitive in the current market and are reportedly handling most of the chartering arrangements themselves to make their sales less publicized. [redacted]

The continuation of low oil prices could create some long-term problems in Libya's petroleum industry. Spare parts shortages are cropping up, probably because Libya does not have the cash to import them. Moreover, oilfield development projects and drilling programs have been cut. These problems, however, have not dampened the interest of foreign oil companies such as the Italian oil firm AGIP, which intends to stay on in Libya, and Austrian and Swedish state firms that are interested in purchasing the oil-producing assets of US companies. [redacted]

The US airstrikes have not yet caused a significant exodus of the foreign workers. [redacted]hat the regime has avoided hostile actions against foreign nationals and is providing special protection to US and British citizens. Some US oilworkers have left Libya, but as many as 400 could be there at any given time. The fear of future military action has nevertheless prompted large numbers of dependents to leave and could still result in the departure of additional workers. [redacted]

Tripoli has responded to West European actions against Libyan diplomats by randomly expelling small numbers of British, Spanish, Italian, and other foreign workers and diplomats. The slowdown in the economy gives Tripoli leeway to draw down the foreign work force, but Libya remains heavily dependent on foreign expertise to operate its economy, especially the oil sector. [redacted]

The Tokyo Economic Summit declaration probably will have only a small impact on Western countries' economic relations with Libya. While the summit participants were relatively forthcoming in condemning Libyan support for terrorism, any policy response is likely to come mainly in the form of stricter antiterrorism measures at home or reduced diplomatic ties. Most Western governments still oppose economic sanctions for a variety of reasons, including a belief that sanctions are ineffective, an unwillingness to lose business, a concern about setting potentially troublesome precedents, and a fear of Libyan retaliation. [redacted]

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